HOUSING MARKET OUTLOOK
Montréal CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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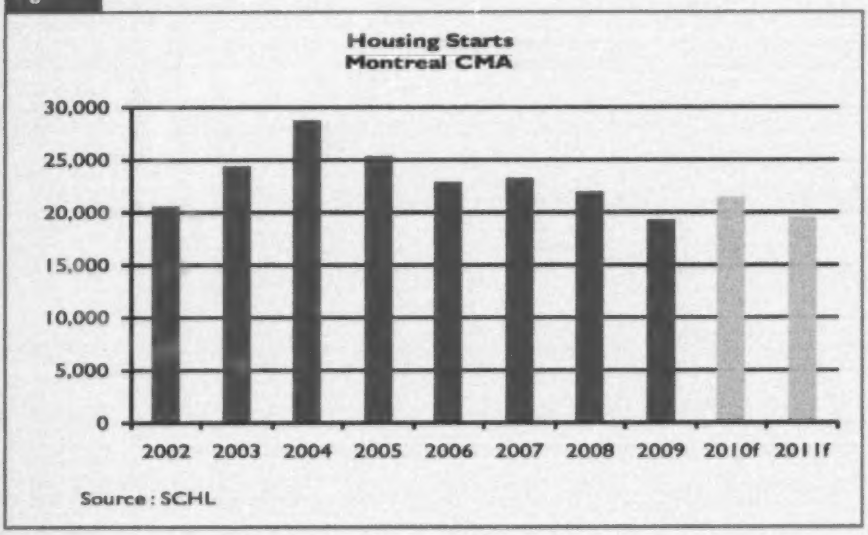
Montréal CMA housing market to be stable in 2011

In 2010, the pace of activity on the Montréal housing market echoed the two-speed movement that characterized the market in 2009. After having reached exceptionally high levels on the resale and new home markets during the first half of the year, housing demand is now all the more moderate since the catch-up and move-up effects have waned. The year 2010 will end with gains, on both the existing and new home markets. In 2011, activity will be stable, as the resale market will be characterized by less volatility, while the new home market will slow down in line with the easing of the resale market and the prevailing economic conditions.[1]

Figure 1



[1]The forecasts included in this document are based on information available as of October 8th, 2010.

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Economic environment

The Quebec economy will expand by nearly 3.0 per cent in 2010, even with the current climate of uncertainty surrounding the global economic conditions. According to our forecasts, Quebec will post moderate economic growth, on account of the slow economic recovery in the United States, the province's main trading partner. Quebec's economy should grow by about 2.4 per cent in 2011.

In the Montréal census metropolitan area (CMA), employment growth came on the heels of the rebound in economic activity and should reach 3.1 per cent in 2010, and the unemployment rate should attain 8.6 per cent. The number of jobs, which rose significantly at the beginning of the year, is now tending to stabilize. In fact, this year, the labour market recovered more jobs than were lost during last year's slowdown. Buoyed up by the activity on the housing market, the construction and financial sectors benefited the most from the employment recovery. Moreover, employment in the construction sector surpassed the peak reached in 2008. Elsewhere on the Montréal labour market, employment in the trade sector, and more particularly in retail trade, also rebounded significantly. Overall, the CMA will register the net creation of nearly 59,000 jobs in 2010.

Along with the less significant economic growth, the expansion of the job market will be less considerable in 2011. This progression will continue to support housing demand, but more moderately than in 2010. The number of jobs will rise by 1.0 per cent in 2011, while the unemployment rate will fall to 8.0 per cent.

Mortgage rates

On September 8th, the Bank of Canada increased the Target for the Overnight Rate from 0.75 per cent to 1.00 per cent. This is the third 25 basis point increase since April 2010, when the rate was at a historical low of 0.25 per cent. With the overnight rate expected to remain flat, mortgage rates, particularly short term mortgage rates and variable mortgage rates, are also expected to remain steady at current levels.

According to CMHC's base case scenario, posted mortgage rates will remain flat in the second half of 2010 and in 2011. For 2010, the one-year posted mortgage rate is assumed to be in the 3.0 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.2 to 6.1 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 2.7 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.5 to 6.0 per cent range.

Rates could, however, increase at a faster pace if the economy ends up recovering more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Immigration on the rise

Thanks to the steady growth in international migration, net migration in the province will improve both this year and next year. In fact, this component will offset interprovincial migration, which will register a growing deficit over the coming year. Net migration in Quebec will therefore reach 50,000 people in 2010 and 52,000 people in 2011, up by 1.1 per cent and 4.0 per cent, respectively. In fact, if the Quebec government's target is met, the province should attract 55,000 immigrants in 2010. Since Montréal tends to draw the vast majority of newcomers to Quebec, this CMA will see its number of immigrants grow in 2010 and 2011. Like the province, without high immigration, the CMA would show negative net migration levels since, year after year, the area loses more people to other regions in Quebec and other provinces across Canada than it gains from them. This influx of newcomers will consequently support net migration in the area, which will rise to 39,492 people in 2010 and then to 40,000 in 2011, for increases of 31.3 per cent and 1.3 per cent, respectively.

As immigrants tend to opt for rental housing when they arrive, the growth in international migration will support demand in this segment of the market in 2010 and 2011.

Resale market

The year 2010 was characterized by a wide pendulum swing on the resale market. The rebound that started at the end of 2009 continued at the beginning of this year and went on until May, when activity adopted a much more moderate pace. The home buying catch-up and move-up effects, attributable to the economic recovery and the anticipated rise in mortgage rates, have effectively tapered off. Overall, despite this decrease, MLS® sales will show a positive annual result in 2010, with a small increase of 0.5 per cent. The combination of the significant volume of transactions at the beginning of the year and the limited supply due to the small number of new listings on the market led to a strong increase in prices. As a result, the average MLS® price will rise by 7.7 per cent to $296,000.

In 2011, the pace of transactions on the resale market will be much less volatile. Employment and economic growth will support demand for existing homes. However, the increase in transactions will be curbed next year by the earlier-than-planned purchases on the part of a number of buyers in 2010 and by a potential rise in interest rates. Overall, the resale market will post a relatively stable level of activity, with 42,600 MLS® sales in 2011, compared to 42,000 in 2010. The less volatile demand in 2011 will ease the pressure on supply, which will increase on account of the rise in new listings that will be added to the market. Active listings will then reach 24,000 units, up by 11.6 per cent over their 2010 level (21,500 units). As a result, the resale market will be more balanced, and less and less in favour of sellers. This will lead to a less pronounced growth in prices as, in 2011, the average MLS® price will reach $303,000, up by 2.4 per cent.

With the resale market favouring sellers in 2010, the growth in prices will be significant and exceed 7 per cent in all segments. In 2011, the condominium segment will be the first to become balanced with supply more in line with demand. The single-family home and plex segments will remain seller's markets, as supply of these housing types will remain limited. The price increases will reflect a less volatile demand, dampened by the earlier-than-planned transactions in 2010 and a potential rise in mortgage rates. Prices should rise by less than 3.5 per cent in all market segments.

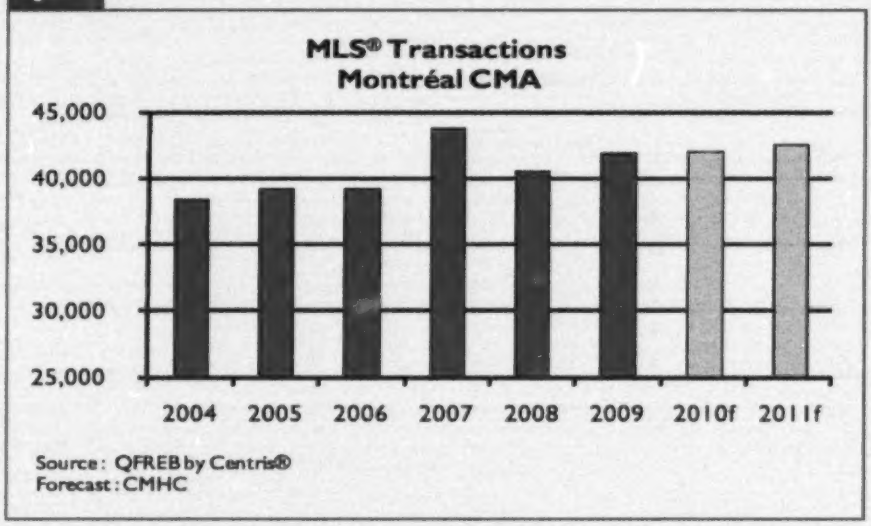
New home market

Residential construction posted strong growth in 2010. Demand on the new home market was supported by the scarce supply observed on the resale market at the beginning of the year, the particularly low mortgage rates and the improved economic outlook. Echoing the easing of the resale market, home building also progressively lost some of its intensity over the second half of the year, particularly in the case of single-detached houses. In all, 21,400 dwellings will be started this year, or 11.2 per cent more than last year.

Residential construction in the metropolitan area will return to a less significant level in 2011, more in line with the pace of the economy. Construction is expected to get under way on 19,500 housing units in 2011, down by 8.9 per cent from 2010. This decline will be greater for multiple-unit housing (-10.8 per cent) than for single-detached houses (-3.5 per cent), for which activity has already started to slow down in 2010.

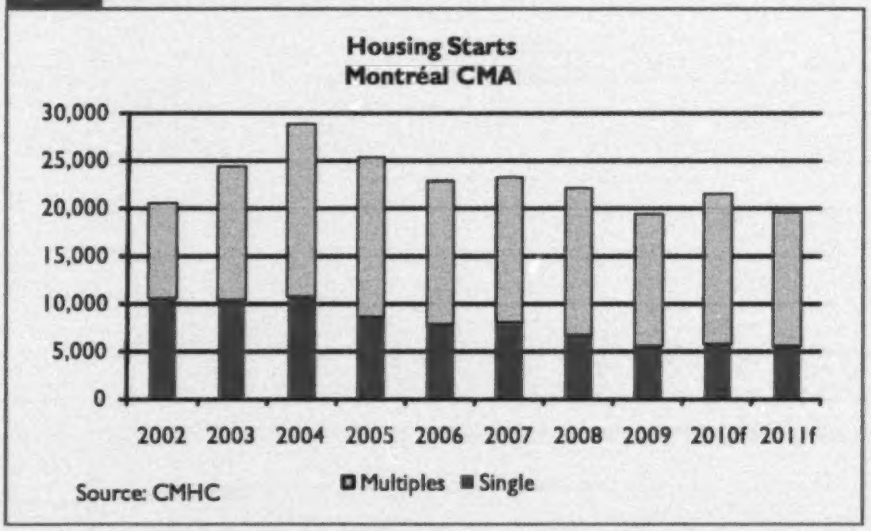
Single-detached housing starts will reach 5,700 units in 2010,

Figure 2



Source: QFREB by Centris®
Forecast: CMHC

Figure 3



Source: CMHC

representing an increase of 5 per cent over last year. Since the resale market will be more balanced in 2011, demand on the new home market will be less significant in this segment. Consequently, 5,500 single-detached houses should be started in 2011, or 4 per cent fewer than in 2010. Single-detached home construction levels will be lower than the average for the last ten years (close to 8,000 units), as a result of the growth in prices and the fact that some buyers will turn to more affordable dwellings. Once again, the North Shore will register the most single-detached home starts, as just over four in ten new houses will be started in this sector.

In the multiple-family housing segment, foundations will be laid for 15,700 units in 2010 and 14,000 more in 2011. Condominiums will account for the greatest share of residential construction in the Montréal metropolitan area, as more than four in ten dwellings started will be condominiums. In 2010, condominium starts will reach 10,000 units, a volume that matches the record level registered in 2004 (10,053 units). Given the sustained growth in prices and the historically low interest rates observed in 2010, condominiums represented an affordable way to access homeownership and attracted many first-time buyers. However, condominium construction will fall by 18 per cent in 2011, returning to its average level of activity since 2003. This segment will have a longer absorption phase next year, as a result of the combined effect of a less sustained demand on the new home market and the arrival on the market of many units started in 2010. The Island will continue to garner half of the new condominiums started in the Montréal CMA in 2011, while close to one quarter of new condominiums will be built on the South Shore. Semi-detached and row houses—the other affordable segment—will do well in 2010 and 2011 and account for 12 per cent of the new dwellings started. These housing types will see their starts volume rise by 18 per cent in 2010 and then stay relatively stable in 2011.

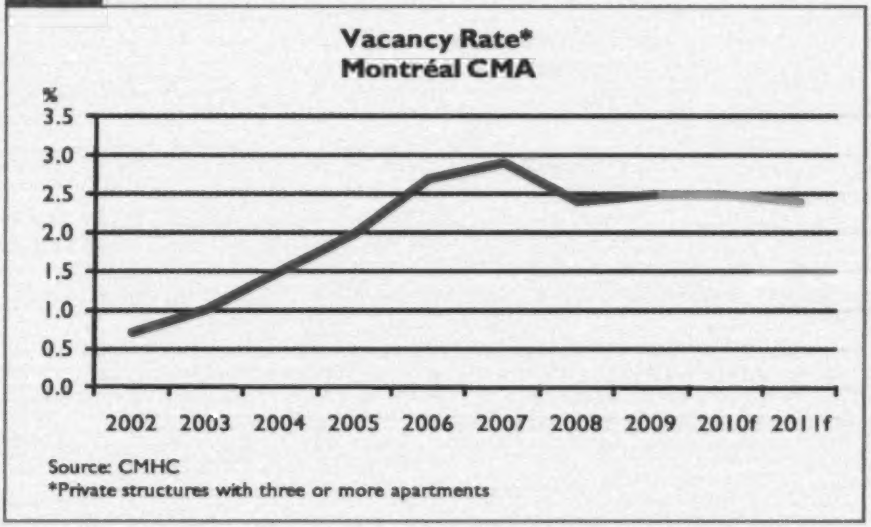
As for rental housing construction, our forecasts call for the pace to stabilize in 2011, after having slowed down in 2010. The level of activity in this segment will be largely influenced by the slowdown in retirement home construction. Currently, this market is in an absorption phase and is facing limited growth in the number of seniors.

Rental market

In 2010, the rental housing vacancy rate will remain stable, at 2.5 per cent, in the Montréal CMA. This stability will result from factors with diverging effects. On the one hand, the low mortgage rates will continue to result in a strong movement to homeownership in 2010. On the other hand, an increase in the number of newcomers and employment growth among young people aged from 15 to 24 years will maintain demand for rental housing and offset the departure of renters to the ownership market. These opposing movements will cancel each other out to preserve the current situation on the rental market.

In 2011, the movement to homeownership will continue, but the scope of this trend will be more limited. In fact, with the combined effect of the higher net migration and the stable housing supply, the vacancy rate will decrease slightly and reach 2.4 per cent in 2011.

Figure 4



Source: CMHC
*Private structures with three or more apartments

Forecast Summary
Montréal CMA
Fall 2010

	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market[1]							
MLS® Sales	43,666	40,441	41,755	42,000	0.6	42,600	1.4
MLS® New Listings	70,819	74,781	69,383	20,300	-70.7	23,400	15.3
MLS® Average Price ($)	251,423	262,616	274,842	296,000	7.7	303,000	2.4
New Home Market							
Starts:							
Single-Detached	8,013	6,602	5,446	5,700	4.7	5,500	-3.5
Multiples	15,220	15,325	13,805	15,700	13.7	14,000	-10.8
Semi-Detached	758	922	1,010		n/a		n/a
Row/Townhouse	665	1,034	1,231		n/a		n/a
Apartments	13,597	13,264	13,084		n/a		n/a
Starts - Total	23,233	21,927	19,251	21,400	11.2	19,500	-8.9
Average Price ($):							
Single-Detached	310,127	340,757	355,089	366,000	3.1	373,000	1.9
Semi-Detached	213,425	239,340	257,248	270,000	5.0	278,000	3.0
New Housing Price Index (% chg.)	4.3	4.9	2.3	2.4	-	2.1	-
Rental Market[2]							
October Vacancy Rate (%)	2.9	2.4	2.5	2.5	-	2.6	-
Two-bedroom Average Rent (October) ($)	647	659	669	678	-	685	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	3.47	-	3.20	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	5.59	-	5.20	-
Annual Employment Level	1,902,600	1,900,100	1,880,400	1,912,800	1.7	1,935,000	1.2
Employment Growth (%)	2.5	-0.1	-1.0	1.7	-	1.2	-
Unemployment rate (%)	7.0	7.4	9.2	9.0	-	8.3	-
Net Migration	19,597	25,495	30,068	40,000	33.0	44,400	11.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

[1] Source: QFREB by Centris®

[2] Privately initiated rental apartment structures of three units and over

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), QFREB by Centris®, CMHC Forecast (2010-2011)

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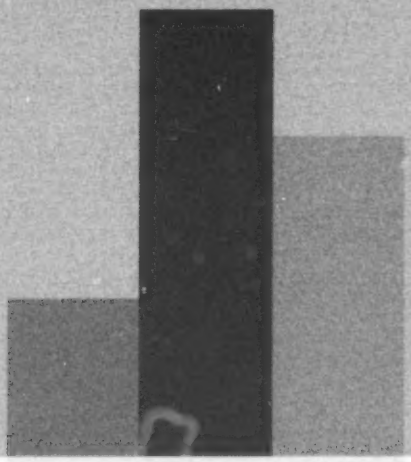

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